

ICC Docket Nos. 07-0241 and 07-0242

The Administrative Law Judge Data Request ALJ 3.01

Dated: September 13, 2007

REQUEST NO. ALJ 3.01:

Please provide tariff sheets with Peoples Gas' proposal for Rider ICR/QIP.

RESPONSE:

Attached are tariff sheets for Peoples Gas proposed Rider ICR. A clean copy of the sheets is attached. Also attached is a copy with revision markings showing all changes made to Staff's proposal.

OFFICIAL FILE

U.C.C. DOCKET NO. 07-0241/07-0242

ALJ Exhibit No. 1

witness _____

Date 9/17/07 Reporter AS

ILL. C. C. NO. 28
First Revised Sheet No. 141

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 1 of 11

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

The Infrastructure Cost Recovery surcharge shall be determined in accordance with the provisions of this rider. The Infrastructure Cost Recovery surcharge (ICR surcharge) shall be applied to bills of customers.

Section A – Applicability

The purpose of the ICR surcharge is to recover a return on, and depreciation expense related to, the Company's investment in QIP as described in Section D of this rider.

Section B – Definitions

As used in this rider, the terms below are defined as follows:

"Act" means the Public Utilities Act [220 ILCS 5/1-101].

"Information sheet" means a tariff sheet filed in accordance with this rider to initiate or modify a ICR surcharge percentage.

"Operation year" means the calendar year (or portion thereof) during which an ICR surcharge percentage is applied to customer bills.

"ICR base rate revenues" mean revenues recorded in the certain accounts and their sub-accounts described in 83 Ill. Adm. Code Part 505. ICR base rate revenues shall include revenues recorded in accounts 480, 481, and 482. ICR base rate revenues, however, shall not include revenues resulting from the ICR surcharge or any revenues attributable to Purchased Gas Adjustment charges developed pursuant to 83 Ill. Adm. Code Part 525.

"ICR surcharge percentage" is the percentage determined in accordance with Section F of this rider for filing in an information sheet.

"QIP-related costs" or "QIP costs" mean costs that are recoverable through the ICR surcharge percentage as determined in accordance with Sections E and F of this rider.

"Infrastructure Cost Recovery surcharge" or "ICR surcharge" means the amount added to a customer bill when the ICR surcharge percentage is applied in accordance with Section F (a) of this rider.

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130 East Randolph Drive, Chicago, Illinois 60601

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First Revised Sheet No. 142

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

"Qualifying infrastructure plant" or "QIP" means certain non-revenue producing plant that is not reflected in the rate base used to establish the Company's base rates and is consistent with the terms of Section D of this rider. "Non-revenue producing plant" is plant that is not constructed or installed for the purpose of serving a new customer.

"Reconciliation year" means the calendar year period for which actual QIP costs and revenues associated with the ICR surcharge are to be reconciled.

"Test year" means the test year period used by the Company in its last rate case as defined in 83 Ill. Adm. Code Sec. 287.20.

Section C - Terms and Conditions

a) The ICR surcharge shall be capped at 5% of the ICR base rate revenues billed to customers. The ICR surcharge shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Gas Adjustment clause developed pursuant to 83 Ill. Adm. Code Part 525, or to any other revenues not recorded in an ICR base rate revenues account as described in Section B of this rider.

b) On the effective date of new base rates that provide for the recovery of the costs that had previously been recovered under this rider, the ICR surcharge percentage shall be reset to zero.

c) The Company shall provide notice of the ICR surcharge rider and subsequent filings and billing as follows:

- 1) The Company shall maintain and keep open for public inspection a copy of each filing of an ICR surcharge and subsequent information sheets and shall post public notice in each office of the Company in accordance with 83 Ill. Adm. Code Sec. 255.20(a).
- 2) For the initial filing of an ICR surcharge, the Company shall provide notice by newspaper publication in accordance with 83 Ill. Adm. Code Sec. 255.20(f)(1) and by mailing a notice of the filing to each of its customers to whom this rider is applicable.
- 3) In connection with the initial billing of each change in an ICR surcharge percentage as specified in an information sheet (other than a change to a zero percentage), including information sheets resulting from the annual reconciliation and Commission-ordered adjustments, the Company shall provide an explanation of the ICR surcharge to be stated on, or included with, the initial billing of the new ICR surcharge percentage.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

- 4) Except as noted above, no other notice of the filing or billing of the ICR surcharge or an information sheet shall be required except as may be provided by law or by Order of the Commission.
- d) The ICR surcharge shall be presented as a separate line item on customer bills.
- e) The revenues resulting from this rider shall be recorded in a separate revenue subaccount.

Section D – Qualifying Infrastructure Plant

a) To be classified as QIP, the plant additions must meet the following criteria:

- 1) Plant additions must be replacements of existing plant items from the accounts listed in subsection (b);
- 2) Such replacements must be non-revenue producing;
- 3) Such replacements are installed to replace cast iron and ductile steel main and ancillary infrastructure;
- 4) Such replacements are installed after the conclusion of the test year in the Company's last rate case; and
- 5) Such replacements were not included in the calculation of the rate base in the Company's last rate case.

b) The plant additions shall include items from the following accounts, pursuant to 83 Ill. Adm. Code Part 505:

- 1) Account 376, Distribution Mains;
- 2) Account 380, Services;
- 3) Account 381 and Account 382, Meters and Meter Installations; and
- 4) Account 383, House Regulators.

c) QIP shall include only plant additions installed on or after January 1 of the year in which the Company files its initial ICR surcharge.

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The Peoples Gas Light and Coke Company

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

Section E - Recoverable Qualifying Infrastructure Plant Costs

a) QIP costs shall include the pre-tax return on QIP and the net depreciation expense applicable to QIP.

1) The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the Company's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor. The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$\text{GRCF} = \frac{1}{(1 - \text{SIT})(1 - \text{FIT})}$$

$$\text{PTR} = ((\text{WCCE} + \text{WCPE}) \times \text{GRCF}) + \text{WCLTD} + \text{WCSTD}$$

Where:

GRCF = Gross Revenue Conversion Factor.

SIT = Illinois State income tax rate in effect at the time of the initial, annual or quarterly filing.

FIT = Federal income tax rate in effect at the time of the initial, annual or quarterly filing.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the Company's last rate case.

WCPE = Weighted cost of preferred equity from the Company's last rate case.

WCLTD = Weighted cost of long term debt from the Company's last rate case.

WCSTD = Weighted cost of short term debt from the Company's last rate case.

2) Net depreciation expense shall be calculated by applying the Company's approved depreciation rate to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

Section F - Determination of the Infrastructure Cost Recovery Surcharge Percentage

a) The ICR surcharge percentage shall be expressed as a percentage carried to two decimal places. The ICR surcharge percentage shall be applied to the total amount billed to each customer based on the Company's otherwise applicable rates and charges. The ICR surcharge percentage shall not be applied to the exclusions listed in Section C (a) of this rider.

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

b) In calculating the ICR surcharge percentage, the Company may choose either annual prospective operation or quarterly historical operation based on QIP investment data for a prior three-month period. Annual prospective operation may be selected only if the Company's last rate case utilized a future test year as defined in 83 Ill. Adm. Sec. Code 287.20 and the Company submits the information required by Section G(d)(6) of this rider.

1) **Annual Prospective Operation**

If the Company chooses annual prospective operation it shall determine the ICR surcharge percentage for the operation year using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR}) + \text{Net Dep} + (R \times 1.33) + ((O + \text{INT}) \times \text{Om})}{\text{PAR}} \times 100\%$$

Where:

S% = ICR surcharge percentage.

NetQIP = The average forecasted cost of the investment in QIP for the operation year less forecasted accumulated depreciation in QIP for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

PTR = Pre-tax return as described in Section E (a) (1) of this rider.

Net Dep = Net depreciation expenses related to the average investment in QIP for the operation year. Depreciation expenses shall be calculated by multiplying the average forecasted cost of the investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-the-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

R = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (c) of this rider. The reconciliation component shall be collected over nine months from April through December.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (h) of this rider.

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

Om = The O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the ICR surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the ICR surcharge percentage on April 1, the Om would be 1.33.

PAR = The projected total ICR base rate revenues for the period from January 1 through December 31 of the operation year. The projected revenue shall not include the exclusions listed in Section C (a) of this rider.

2) Quarterly Historical Operation

If the Company chooses quarterly historical operation it shall determine the ICR surcharge percentage for the quarter using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR} \times .25) + \text{NetQDep} + (\text{R} \times .33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PQR}} \times 100\%$$

Where:

S% = ICR surcharge percentage.

NetQIP = Original cost of QIP less accumulated depreciation. NetQIP shall be the level of investment in QIP existing at the end of the calendar month preceding the month in which an information sheet is filed.

PTR = Pre-tax return as described in Section E (a) (1) of this rider.

NetQDep = Net quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to the plant being retired.

R = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (c) of this rider. The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (h) of this rider.

Om = The O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the ICR surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the ICR surcharge percentage on April 1, the Om would be .33.

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

PQR = Projected quarterly ICR base rate revenues during the calendar quarter when the ICR surcharge percentage shall be in effect. The projected quarterly revenue shall not include the exclusions listed in Section C (a) of this rider.

Section G Information Sheet Filings

a) The ICR surcharge percentage shall be filed on an information sheet with supporting data no later than the 20th day of the month preceding the effective date of the ICR surcharge percentage. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

b) If the Company elects annual prospective operation it may file its initial information sheet with an ICR surcharge percentage for the initial operation year with an effective date of the first day of any month. The effective date of any subsequent information sheet with an ICR surcharge percentage is January 1 (and April 1 if the R component is modified). The Company may, at its option, file an information sheet modifying the ICR surcharge percentage, with an effective date of the first day of any month during the operation year, when necessary to recognize a material change in assumptions used in developing the ICR surcharge percentage (including, but not limited to, a change in depreciation rates). The Company shall also file an information sheet to implement an O component.

c) If the Company elects quarterly historical operation a new surcharge percentage may become effective on April 1, July 1, October 1, and January 1 (with a new R component becoming effective, if required, on April 1). The Company may elect not to file an information sheet showing an increased ICR surcharge percentage for any quarter provided that the QIP costs that would have been reflected for that quarter in excess of the level reflected in developing the ICR surcharge percentage in effect for the quarter are disregarded in calculating the R component and O component for the affected reconciliation year.

d) If the Company elects annual prospective operation it shall provide the following with the filing of each information sheet to become effective on January 1:

- 1) A calculation of the ICR surcharge percentage, PTR, and GRCF;
- 2) A schedule showing the amount of forecasted expenditures for QIP during the operation year by plant account;
- 3) A description of the projects included in each plant account by type of project;

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The Peoples Gas Light and Coke Company

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

- 4) A detailed description of individual ICR eligible projects with a forecasted cost in excess of \$100,000;
 - 5) A detailed schedule showing the calculation of depreciation expense; and
 - 6) A statement verified by an officer of the Company that, in the belief of management:
 - A) The forecast used in developing the ICR surcharge percentage was prepared in accordance with the Guidelines for Presentation of Projected Financial Information (April 1, 1999) established by the American Institute of Certified Public Accountants, Inc.; and
 - B) The accounting treatment applied to events and transactions in the forecast is the same as the accounting treatment to be applied in recording the events once they occur.
- e) If the Company elects quarterly historical operation it shall submit with each information sheet:
- 1) A calculation of the ICR surcharge percentage, PTR, and GRCF;
 - 2) A detailed schedule providing the following information for each completed ICR eligible project whose cost has been transferred to utility plant with the closing of the ICR eligible project's work order:
 - A) Plant account number and title;
 - B) Category of project;
 - C) Project name;
 - D) Description of project;
 - E) Work order number;
 - F) Dollar amount in the month of closing; and
 - G) Month and year of closing; and
 - 3) A detailed schedule showing the calculation of depreciation expense.

Section H Annual Reconciliation

a) On or before March 15 of each year in which the Company had an ICR surcharge in effect for all or part of the immediately preceding calendar year, the Company shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the Company. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under this rider in effect during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

b) With the annual reconciliation, the Company shall file a petition seeking initiation of an annual reconciliation hearing. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the ICR surcharge during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the Company to the R component of the ICR surcharge percentage).

c) The Company shall calculate the R component using the following formula:

$$R = (\text{ActNetQIP} \times \text{PTR}) + \text{ActNetDep} - \text{ICRRev} + \text{Rpy} + \text{Opy}$$

Where:

R = Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the reconciliation year less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year. The amount of the ActNetQIP shall be limited by the provisions of Section G (c) of this rider.

PTR = Pre-tax return as described in Section E (a) (1) of this rider.

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

ActNetDep = Actual net depreciation expense related to the average investment in QIP for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The amount of the ActNetDep shall be limited by the provisions of Section G (c) of this rider.

ICRRev = Actual ICR revenues collected during the reconciliation year through the ICR surcharge.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components included in the calculation of the ICR surcharge percentage during the reconciliation year.

d) Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.

e) Each annual reconciliation shall include the following schedules:

- 1) A schedule showing the QIP costs for the reconciliation year;
- 2) A schedule showing the revenues arising through the application of the ICR surcharge during the reconciliation year; and
- 3) A schedule showing the reconciliation component determined by the Company showing the amount to be recovered or refunded over a nine-month period commencing on April 1.

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The Peoples Gas Light and Coke Company

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

f) The first reconciliation year shall begin on the effective date of the first ICR surcharge information sheet and end on December 31 of the calendar year in which the first information sheet became effective. Each subsequent reconciliation year shall end on December 31.

g) When the Company files its annual reconciliation, the Company shall provide copies of the following items to the Commission's Manager of the Accounting Department:

- 1) Copies of all workpapers pertaining to the reconciliation;
- 2) A detailed summary of all invoices supporting the costs for eligible ICR surcharge projects;
- 3) Copies of the applicable general ledger or comparable material supporting the recovery of the ICR surcharge;
- 4) A detailed worksheet showing the calculation of any Company-determined reconciliation component (R component) amount based upon the annual reconciliation; and
- 5) Information regarding the prudence of the Company's investment in QIP.

h) Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code Sec. 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the ICR surcharge.

i) If the annual reconciliation filed by the Company shows that the revenues collected by application of the ICR surcharge rider exceed actual QIP costs for three or more consecutive reconciliation years, the Commission may initiate hearings under Section 9-250 of the Act [220 ILCS 5/9-250] to determine whether this rider should be canceled.

Section I – Audit

The Company shall file annually with the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than July 1, an internal audit report that determines whether or not the ICR surcharge and information provided in Section H have been calculated in accordance with this rider.

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider QIPICR

Qualifying Infrastructure Plant Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

The ~~Qualifying Infrastructure Plant~~ (~~QIP~~Cost Recovery surcharge) shall be determined in accordance with the provisions of this rider. The Infrastructure Cost Recovery surcharge (ICR surcharge) shall be applied to bills of customers.

Section A – Applicability

The purpose of the QIPICR surcharge is to recover a return on, and depreciation expense related to, the ~~utility company's~~ investment in QIP as described in Section D of this ~~Part rider~~.

Section B – Definitions

As used in this rider, the terms below are defined as follows:

"Act" means the Public Utilities Act [220 ILCS 5/1-101].

"Information sheet" means a tariff sheet filed in accordance with this ~~Part rider~~ to initiate or modify a QIPICR surcharge percentage.

"Operation year" means the calendar year (or portion thereof) during which a ~~QIP~~an ICR surcharge percentage is applied to customer bills.

"QIPICR base rate revenues" mean revenues recorded in the certain accounts and their sub-accounts described in 83 Ill. Adm. Code 505, ~~the Uniform System of Accounts for Gas Utilities~~. QIP Part 505 ICR base rate revenues shall include revenues recorded in accounts 480, 481, and 482. QIPICR base rate revenues, however, shall not include revenues resulting from the QIPICR surcharge or any revenues attributable to Purchased Gas Adjustment charges developed pursuant to 83 Ill. Adm. Code Part 525.

"QIPICR surcharge percentage" is the percentage determined in accordance with Section F of this ~~Part rider~~ for filing in an information sheet.

"QIP-related costs" or "QIP costs" mean costs that are recoverable through the QIPICR surcharge percentage as determined in accordance with Sections E and F of this ~~Part rider~~.

"~~Qualifying infrastructure plant~~Infrastructure Cost Recovery surcharge" or "QIPICR surcharge" means the amount added to a customer bill when the QIPICR surcharge percentage is applied in accordance with Section F (a) of this ~~Part rider~~.

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The Peoples Gas Light and Coke Company

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Rider QIPICR

Qualifying Infrastructure Plant Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

"Qualifying infrastructure plant" or "QIP" means certain non-revenue producing ~~eligible~~ plant that is not reflected in the rate base used to establish the utilityCompany's base rates and is consistent with the terms of Section D of this ~~Part-rider~~. "Non-revenue producing plant" is plant that is not constructed or installed for the purpose of serving a new customer.

"Reconciliation year" means the calendar year period for which actual QIP costs and revenues associated with the QIPICR surcharge are to be reconciled.

"Test year" means the test year period used by the utilityCompany in its last rate case as defined in 83 Ill. Adm. Code ~~285-150~~ Sec. 287.20.

~~"The utility" means The Peoples Gas Light and Coke Company.~~

Section C - General Requirements Terms and Conditions

a) The QIPICR surcharge shall be capped at 5% of the QIPICR base rate revenues billed to customers. The QIPICR surcharge shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Gas Adjustment clause developed pursuant to 83 Ill. Adm. Code Part 525, or to any other revenues not recorded in a QIPan ICR base rate revenues account as described in Section B of this ~~Part-rider~~.

b) On the effective date of new base rates that provide for the recovery of the costs that had previously been recovered under ~~the QIP surcharge~~ this rider, the QIPICR surcharge percentage ~~for the applicable rate zone~~ shall be reset to zero.

c) The utilityCompany shall provide notice of the QIPICR surcharge rider and subsequent filings and billing as follows:

- 1) The utilityCompany shall maintain and keep open for public inspection a copy of each filing of a QIPan ICR surcharge ~~rider~~ and subsequent information sheets and shall post public notice in each office of the utilityCompany in accordance with 83 Ill. Adm. Code Sec. 255.20(a).
- 2) For the initial filing of a QIPan ICR surcharge ~~rider~~, the utilityCompany shall provide notice by newspaper publication in accordance with 83 Ill. Adm. Code Sec. 255.20(f)(1) and by mailing a notice of the filing to each of its customers to whom this rider is applicable.
- 3) In connection with the initial billing of each change in a QIPan ICR surcharge percentage as specified in an information sheet (other than a change to a zero percentage), including information sheets resulting from the annual reconciliation and Commission-ordered adjustments, the utilityCompany shall provide an explanation of the QIPICR surcharge to be stated on, or included with, the initial billing of the new QIPICR surcharge percentage.

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Rider QIPICR

Qualifying Infrastructure Plant Cost Recovery

Applicable to Service Classification Nos. 1H, 2 and 4

- 4) Except as noted above, no other notice of the filing or billing of the QIPICR surcharge rider or an information sheet shall be required except as may be provided by law or by Order of the Commission.
- d) The QIPICR surcharge shall be presented as a separate line item on customer bills.
- e) The revenues resulting from each QIP surcharge this rider shall be recorded in a separate revenue subaccount.

Section D – Qualifying Infrastructure Plant

- a) To be classified as QIP, the plant additions must meet the following criteria:

- 1) Plant additions must be replacements of existing plant items from the accounts listed in subsection (b);
- 2) Such replacements must be non-revenue producing;
- 3) Such replacements are installed to replace cast iron and ductile steel main and ancillary infrastructure;
- 4) Such replacements are installed after the conclusion of the test year in the utility Company's latest last rate case; and
- 5) Such replacements were not included in the calculation of the rate base in the utility Company's last rate case.

- b) The plant additions shall include items from the following accounts, pursuant to 83 Ill. Adm. Code Part 505:

- 1) Account 376, Distribution Mains;
- 2) Account 380, Services;
- 3) Account 381 and Account 382, Meters and Meter Installations; and
- 4) Account 383, House Regulators.

- c) QIP shall include only plant additions installed on or after January 1 of the year in which the utility Company files its initial QIPICR surcharge rider in accordance with Section G of this Part.

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Asterisks do not indicate changes
since the entire sheet has changed

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The Peoples Gas Light and Coke Company

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Section E - Recoverable Qualifying Infrastructure Plant Costs

a) QIP costs shall include the pre-tax return on QIP and the net depreciation expense applicable to QIP.

1) The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the utilityCompany's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor (GRCF). The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$\text{GRCF} = \frac{1}{(1 - \text{SIT}) (1 - \text{FIT})}$$

$$\text{PTR} = ((\text{WCCE} + \text{WCPE}) \times \text{GRCF}) + \text{WCLTD} + \text{WCSTD}$$

Where:

GRCF = Gross Revenue Conversion Factor.

SIT = Illinois State income tax rate in effect at the time of the initial, annual or quarterly filing.

FIT = Federal income tax rate in effect at the time of the initial, annual or quarterly filing.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the utilityCompany's last rate case.

WCPE = Weighted cost of preferred equity from the utilityCompany's last rate case.

WCLTD = Weighted cost of long term debt from the utilityCompany's last rate case.

WCSTD = Weighted cost of short term debt from the utilityCompany's last rate case.

2) Net depreciation expense shall be calculated by applying the utilityCompany's approved depreciation rate to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

Section F - Determination of the Qualifying Infrastructure Plant Cost Recovery Surcharge Percentage

a) The QIPICR surcharge percentage shall be expressed as a percentage carried to two decimal places. The QIPICR surcharge percentage shall be applied to the total amount billed to each customer ~~located in the same rate zone~~ based on the utilityCompany's otherwise applicable rates and charges. The QIPICR surcharge percentage shall not be applied to the exclusions listed in Section C (a) of this ~~Part rider~~.

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b) In calculating the QIPICR surcharge percentage, the utility shall use Company may choose either annual prospective operation or quarterly historical operation based on QIP investment data for a prior three-month period. Annual prospective operation may be selected only if the Company's last rate case utilized a future test year as defined in 83 Ill. Adm. Sec. Code 287.20 and the Company submits the information required by Section G(d)(6) of this rider.

1) Annual Prospective Operation

If the Company chooses annual prospective operation it shall determine the ICR surcharge percentage for the operation year using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR}) + \text{Net Dep} + (R \times 1.33) + ((O + \text{INT}) \times \text{Om})}{\text{PAR}} \times 100\%$$

Where:

S% = ICR surcharge percentage.

NetQIP = The average forecasted cost of the investment in QIP for the operation year less forecasted accumulated depreciation in QIP for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

PTR = Pre-tax return as described in Section E (a) (1) of this rider.

Net Dep = Net depreciation expenses related to the average investment in QIP for the operation year. Depreciation expenses shall be calculated by multiplying the average forecasted cost of the investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-the-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

R = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (c) of this rider. The reconciliation component shall be collected over nine months from April through December.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (h) of this rider.

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Om = The O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the ICR surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the ICR surcharge percentage on April 1, the Om would be 1.33.

PAR = The projected total ICR base rate revenues for the period from January 1 through December 31 of the operation year. The projected revenue shall not include the exclusions listed in Section C (a) of this rider.

2) Quarterly Historical Operation

UtilitiesIf the Company chooses quarterly historical operation it shall determine the QIPICR surcharge percentage for the quarter using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR} \times .25) + \text{NetQDep} + (\text{R} \times .33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PQR}} \times 100\%$$

Where:

S% = QIPICR surcharge percentage.

NetQIP = Original cost of QIP less accumulated depreciation. NetQIP shall be the level of investment in QIP existing at the end of the calendar month ~~for preceding~~ the month in which an information sheet is filed.

PTR = Pre-tax return as described in Section E (a) (1) of this ~~Part rider~~.

NetQDep = Net quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to the plant being retired.

R = ~~Utility Company~~-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (~~dc~~) of this ~~Part rider~~. The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (~~ih~~) of this ~~Part rider~~.

Om = The ~~Commission-ordered~~ O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIPICR surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the QIPICR surcharge percentage on April 1, the Om would be .33.

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PQR = ~~Project~~Projected quarterly gas QIPICR base rate revenues during the calendar quarter when the QIPICR surcharge percentage shall be in effect. The projected quarterly revenue shall not include the exclusions listed in Section C (a) of this ~~Part~~rider.

Section G ~~Rider and~~ Information Sheet Filings

a) A utility shall file a proposed QIP surcharge rider consistent with this Rider pursuant to Section 9-201 of the Act. After a QIP surcharge rider is in effect, the ~~QIP~~ICR surcharge percentage shall be filed on an information sheet with supporting data no later than the 20th day of the month preceding the effective date of the QIPICR surcharge percentage. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

b) If the Company elects annual prospective operation it may file its initial information sheet with an ICR surcharge percentage for the initial operation year with an effective date of the first day of any month. The effective date of any subsequent information sheet with an ICR surcharge percentage is January 1 (and April 1 if the R component is modified). The Company may, at its option, file an information sheet modifying the ICR surcharge percentage, with an effective date of the first day of any month during the operation year, when necessary to recognize a material change in assumptions used in developing the ICR surcharge percentage (including, but not limited to, a change in depreciation rates). The Company shall also file an information sheet to implement an O component.

c) If the Company elects quarterly historical operation a new surcharge percentage may become effective on April 1, July 1, October 1, and January 1 (with a new R component becoming effective, if required, on April 1). A utility~~The Company~~ may elect not to file an information sheet showing an increased QIPICR surcharge percentage for any quarter provided that the QIP costs that would have been reflected for that quarter in excess of the level reflected in developing the QIPICR surcharge percentage in effect for the quarter are disregarded in calculating the R component and O component for the affected reconciliation year.

d) If the Company elects annual prospective operation it shall provide the following with the filing of each information sheet to become effective on January 1:

- 1) A calculation of the ICR surcharge percentage, PTR, and GRCE;
- 2) A schedule showing the amount of forecasted expenditures for QIP during the operation year by plant account;
- 3) A description of the projects included in each plant account by type of project;

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- 4) A detailed description of individual ICR eligible projects with a forecasted cost in excess of \$100,000;
 - 5) A detailed schedule showing the calculation of depreciation expense; and
 - 6) A statement verified by an officer of the Company that, in the belief of management:
 - A) The forecast used in developing the ICR surcharge percentage was prepared in accordance with the Guidelines for Presentation of Projected Financial Information (April 1, 1999) established by the American Institute of Certified Public Accountants, Inc.; and
 - B) The accounting treatment applied to events and transactions in the forecast is the same as the accounting treatment to be applied in recording the events once they occur.
- A utility) If the Company elects quarterly historical operation it shall submit with each information sheet:
- 1) A calculation of the QIPICR surcharge percentage, PTR, and GRCF;
 - 2) A detailed schedule providing the following information for each completed QIPICR eligible project whose cost has been transferred to utility plant with the closing of the QIPICR eligible project's work order:
 - A) Plant account number and title;
 - B) Category of project;
 - C) Project name;
 - D) Description of project;
 - E) Work order number;
 - F) Dollar amount in the month of closing; and
 - G) Month and year of closing; and
 - 3) A detailed schedule showing the calculation of depreciation expense.

Section H Annual Reconciliation

a) On or before March 15 of each year, a utility that in which the Company had a QIP an ICR surcharge in effect for all or part of the immediately preceding calendar year, the Company shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the utility Company. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under the QIP surcharge ~~this~~ rider in effect during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year.

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In the event that the earnings report filed under this Section shows that the utility's actual rate of return has exceeded the level authorized in the utility's last general rate proceeding, as applicable, then the R component shall include the credit required by subsections (c) and (d). Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

b) With the annual reconciliation, the utility Company shall file a petition seeking initiation of the annual reconciliation ~~hearings required by Section 9-220.2 of the Act~~ hearing. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the QIPICR surcharge rider during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the utility Company to the R component of the QIPICR surcharge percentage).

c) In the annual reconciliation, the utility shall include data showing operating income and rate base for the reconciliation year, such data being developed in accordance with subsection (f)(4). If, for any such rate zone, the actual rate of return on rate base for the reconciliation year exceeds the overall rate of return allowed in the utility's last rate proceeding, revenues collected under the QIP surcharge rider shall be reflected as a credit through the R component of the QIP surcharge to the extent that such revenues contributed to the realization of a rate of return above the last approved level. A credit value for the R component will result in a reduction of the QIP surcharge percentage. To the extent, if any, that a required adjustment for a reconciliation year has not been already made by the utility (through the R component), the Commission shall require (through the O component) that such an adjustment be made after the annual reconciliation hearing.

d) The utility

c) The Company shall calculate the R component using the following formula:

$$R = (\text{ActNetQIP} \times \text{PTR}) + \text{ActNetDep} - \text{QIPRev} - \text{ICRRev} + \text{Rpy} + \text{Opy} - \text{EEA}$$

Where:

R = Utility Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the reconciliation year less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year. The amount of the ActNetQIP shall be limited by the provisions of Section G (bc) of this Part rider.

PTR = Pre-tax return as described in Section E (a) (1) of this Part rider.

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ActNetDep = Actual net depreciation expense related to the average investment in QIP for the rate zone for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The amount of the ActNetDep shall be limited by the provisions of Section G (bc) of this Part rider.

QIPRevICRRev = Actual QIPICR revenues collected during the reconciliation year through the QIPICR surcharge.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components included in the calculation of the QIPICR surcharge percentage during the reconciliation year.

~~EEA = Excess earnings amount calculated in accordance with subsections (a), (c) and (f)(4) of this Section. There will only be an EEA when the utility's actual rate of return for the reconciliation year exceeds the overall rate of return authorized by the Commission in the utility's last rate proceeding.~~

~~ed)~~ Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.

~~fe)~~ Each annual reconciliation shall include the following schedules:

- 1) A schedule showing the QIP costs for the reconciliation year;
- 2) A schedule showing the revenues arising through the application of the QIPICR surcharge during the reconciliation year; and
- 3) A schedule showing the reconciliation component determined by the utility Company showing the amount to be recovered or refunded over a nine-month period commencing on April 1; and 1.
- 4) ~~Schedules showing the utility's calculation of actual operating income and 13-month average rate base for the reconciliation year by rate zone. This calculation of actual operating income and 13-month average rate base shall be adjusted for any applicable adjustments accepted by the Commission in the utility's last rate case.~~

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In calculating the amount of federal and State income tax expense reflected in operating income, the utility shall reflect as deductible interest expense for tax purposes the product that results when the weighted embedded cost of debt reflected in the overall rate of return calculation used in the utility's last rate proceeding is multiplied by the rate base for the applicable rate zone as shown in the annual reconciliation. In the event that the actual rate of return for any rate zone exceeds the rate of return allowed in the utility's last gas rate proceeding, a schedule showing the extent to which revenues provided by operation of the QIP surcharge contributed to the difference between the actual and last authorized rate of return also shall be provided. The amount of the revenues provided by the QIP surcharge that contributed to the actual rate of return exceeding the overall rate of return authorized by the Commission in the utility's last gas rate proceeding shall be included as a credit in the calculation of the R component.

g) The first reconciliation year shall begin on the effective date of the first QIPICR surcharge information sheet and end on December 31 of the calendar year in which the first information sheet became effective. Each subsequent reconciliation year shall end on December 31.

h) When the utilityCompany files its annual reconciliation, the utilityCompany shall provide copies of the following items to the Commission's Manager of the Accounting Department:

- 1) Copies of all workpapers pertaining to the reconciliation;
- 2) A detailed summary of all invoices supporting the costs for eligible QIPICR surcharge projects;
- 3) Copies of the applicable general ledger or comparable material supporting the recovery of the QIPICR surcharge;
- 4) A detailed worksheet showing the calculation of any utilityCompany-determined reconciliation component (R component) amount based upon the annual reconciliation; and
- 5) Information regarding the prudence of the utilityCompany's investment in QIP.

i) Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code Sec. 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the QIPICR surcharge.

j) If the annual reconciliation filed by a utilitythe Company shows that the revenues collected by application of the QIPICR surcharge rider exceed actual QIP costs for three or more consecutive reconciliation years, the Commission may initiate hearings under Section 9-250 of the Act [220 ILCS 5/9-250] to determine whether the utility's QIP surcharge rider should be canceled.

Section I – Audit

The utilityCompany shall file annually with the Manager of the Accounting Department of the ICCCommission's Financial Analysis Division, no later than July 1, an internal audit report that determines whether or not the QIPICR surcharge and information provided in Section H have been calculated in accordance with this Part rider.

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